

Before the  
POSTAL REGULATORY COMMISSION  
Washington, DC 20268-0001

Complaint of the :  
Greeting Card Association : Docket No. C2020-2

RESPONSE OF THE GREETING CARD ASSOCIATION TO  
POSTAL SERVICE ANSWERS TO CHAIRMAN'S INFORMATION  
REQUEST NO. 1

Chairman's Information Request (CHIR) No. 1, issued March 27, 2020, allows responses to the Postal Service's answers to the questions in the CHIR. The Greeting Card Association (GCA) files this response pursuant to that authorization. Our comments concern CHIR Questions 1, 2, 6, 7, and 8. We take up those items in the order in which they appear in the CHIR and the Postal Service's answers.

I. PRICE ELASTICITY

Question 1 of the CHIR asks the Postal Service to provide backup for the statement in its Motion to Dismiss that Stamped and Metered Letters have different price elasticities. Its answer describes its econometric work and states that –

. . . These results are suggestive that Metered Letters are more price-sensitive than Stamped Letters. As a result of these findings, the USPS has separate econometric demand equations for First-Class, Single-Piece Stamped and Metered Letters for use in developing its most recent volume forecasts.

An appendix to the Postal Service filing contains the econometric outputs said to support the conclusion that the elasticities are -0.131 (Stamped) and -0.202 (Metered).

It seems evident that the "most recent volume forecasts" must be those which, we infer, are being used currently and which presumably will be reported next January in connection with the then-pending annual compliance review.

This is so because the volume forecasts report filed on January 21 of this year contains only a single set of elasticities for Single-Piece Letters; there are no separate elasticities for Stamped and Metered. On p. 2 of the contemporaneously-filed *Changes to Econometric Demand Equations for Market Dominant Products since January 2019*, the Postal Service states that for First-Class Single-Piece Letters "No changes have been made to the specification." Thus the econometric work proffered in response to Question 1 evidently has not previously been seen in public and has not been reviewed critically. The week allowed for responding to the Service's filing is clearly insufficient for such a review.

That apart, the newness of this econometric work shows that disparate price elasticities as between stamped and metered letters cannot have been part of the original (FY 2014) rationale for creating the Metered Letter differential or, particularly, for expanding it to \$0.05 in Docket R2019-1. Differing elasticities were not cited as a reason for establishing the Metered Letter rate when the Postal Service first described it in Docket RM2013-10.<sup>1</sup>

In any case, it is not yet clear that the Postal Service's econometric work, even if impeccable technically, is robust enough to support a 66.67 percent change in the discount (expansion of the \$0.03 price differential to \$0.05). It is generally thought that a volume prediction model which works adequately for price changes of a few percent may produce wrong answers if the change is much larger.

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<sup>1</sup> See Docket RM2013-10, *United States Postal Service Notice of Market-Dominant Price Adjustment*, pp. 18-20.

## II. METER ACCOUNTS

In response to CHIR Question 2, the Postal Service provides the number of meter accounts for each year from FY 2014 to FY 2019.

The Service reports a very large increase: from 4,022,299 accounts in FY 2014 to 21,236,099 in FY 2019. This in itself is interesting, but even more so is the relationship between the number of accounts and the volume of Metered Letters. The table below compares the two statistics to arrive at a yearly average volume per account:

### **Pieces per Meter Account FY 2014 - FY 2019**

<u>[a] Fiscal Year</u>	<u>[b] Metered Volume (000)</u>	<u>[c] Meter Accounts</u>	<u>[d] Pieces/Account (000)</u>
FY 2014	5,342,349	4,022,299	1.3282
FY 2015	7,704,766	9,905,745	0.7778
FY 2016	7,567,624	13,865,223	0.5458
FY 2017	7,118,905	16,899,185	0.4213
FY 2018	6,879,440	18,780,755	0.3663
FY 2019	6,519,972	21,236,099	0.3070

Sources:

[b] USPS Billing Determinants

[c] USPS Response CHIR Q1

[d] Computed

Thus the average yearly volume per account for FY 2019 is less than a quarter of what it was in FY 2014.<sup>2</sup>

The large increase in meter accounts might be taken as suggesting that the Metered Letter rate has succeeded in causing mailers to convert from

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<sup>2</sup> As explained in our complaint, pp. 23-25, the apparent uptick in Metered volume between FY 2014 and FY 2015 is an artifact of the data source and not a real increase.

stamps. From the perspective of the Postal Service, and of the Commission in examining these issues, the important trend is not in the number of meters but in the volume of letter mail using them. But the volume of Metered Letters has gone down even as the number of meters has gone up. It is possible that progressively smaller businesses (as indicated by originating mail volume) have converted to meters, but this in itself does not benefit the Postal Service as a corresponding or partly corresponding increase in mail volume would do.

### III. STAMP PRODUCTION AND DISTRIBUTION

This topic encompasses CHIR Questions 6 and 7 and the Postal Service's response to them. The Postal Service provided costs for stamp distribution of about \$5.5 million and for stamp production of about \$35.0 million.

It would be incorrect to infer that these expenses relate entirely to stamped Single-Piece letters.

First, the stamp production and distribution programs presumably include the precanceled stamps used predominantly or entirely by bulk mailers, including especially users of USPS Marketing Mail. We suggest a further information request to ask the Postal Service to break out, if possible, this part of the stamp production and distribution cost. Similar questions arise regarding other programs covered by the stamp production rubric (see the description of account 52441000, quoted below), and we would suggest that a further CHIR inquire about them also. Even a report (or estimate) of the proportion of total stamps produced represented by precancels, duck stamps, and the like would be helpful.

Secondly, these programs presumably also cover stamps distributed through the philatelic program, which by definition are not used on Single-Piece letters or otherwise. We suggest a similar information request on this point.

As an example: the table in the Postal Service's answer includes account 52441000, "Cost of postage stock." As described in the Postal Service chart of accounts (Handbook F-8) filed in Docket ACR2019, this account covers

. . . migratory bird and postage stamps[,] international reply coupons[,] stamp dispensers[,] stamp albums[,] stamp photos [sic] prints[,] stamp die proofs[,] and precanceling of stamps paid at post offices<sup>3</sup>

According to the answer to Question 7, this is a \$42 million item – somewhat more than the net cost (\$34.976 million) reported in Table 1 of that answer. If only ten percent of the cost of postage stock represented items *not* used or usable for Single-Piece letters, that \$34.976 million net cost would, all else equal, become \$30.768 million.

We suggest these additional inquiries because what is important in this case is the relative *total* cost of Stamped and Metered Letters. A balanced comparison of these totals requires us to distinguish and exclude, within cost elements that may seem to apply to stamped letters, those sub-elements which have entirely different applications and which make up no part of the cost of a stamped letter.

#### IV. WINDOW SERVICE

In response to CHIR Question 8, the Postal Service supplied a window service cost for Single-Piece Letters of \$286.1 million (with piggyback factors applied). It states that 95.1 percent of this total relates to Stamped letters and the balance to Metered letters.

Again, we would stress the need for a balanced comparison of the total costs of these two sub-types of letters. For this to be possible, there should be

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<sup>3</sup> The chart of accounts is an Excel spreadsheet and is printed without commas between items. We have added commas to make the quotation more readable.

corresponding information as to any cost categories wholly or predominantly related to metered letter mail.

An obvious body of necessary information is the cost of meter setting and the bookkeeping involved in managing meter users' accounts. These costs, by definition, relate only to Metered Letters. A balanced comparison of total Stamped and Metered Letter costs should include them. The Postal Service indicates in answering Question 2 that there are now more than 21 million meter accounts, suggesting that the cost of maintaining and accounting for them could be substantial.

GCA requests that a further CHIR be issued, asking the Postal Service to identify and quantify any costs – such as the meter setting program – which wholly or predominantly relate to metered letters.

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Respectfully submitted,

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## CERTIFICATE OF SERVICE

I certify that I have today served the foregoing document via the Postal Regulatory Commission Filing On Line system and by electronic mail, in a true and correct copy, upon:

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